

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION OF SERVICE AND RATES)	ADMINISTRATIVE
TO KRS 278.485 GAS CUSTOMERS)	CASE NO. 342

O R D E R

KRS 278.485 provides:

Every gas pipeline company obtaining gas from producing wells located within this state, upon the request of the owner of the property on or over which any producing well or gas gathering pipeline is located or the owner of real estate whose property and point of desired service is located within one-half (1/2) air-mile of said company's producing well or gas gathering pipeline, shall furnish gas service to such owner and applicant, subject to and upon the following terms, conditions and provisions, to-wit:

(1) The gas service shall be furnished at rates and minimum monthly charges determined by the public service commission. . . .

The quality of gas for such service is not guaranteed, and the service may be discontinued if the gas pipeline company abandons a gas well or gathering pipeline from which farm tap service is provided. Gas pipeline companies which provide farm tap service, typically gas producers, have historically continued such service until the gas well becomes uneconomical to operate or the pipeline becomes too costly to maintain.

The Commission has historically asserted safety and rate jurisdiction over the provision of farm tap service. With regard to safety, for example, pursuant to 807 KAR 5:026, the tap made by the gas pipeline company and the service or yard line installed by

the customer must be inspected by Commission Staff prior to the initiation of such service.

Regarding rates, KRS 278.485(1) states the Commission shall determine the rates for farm tap service. 807 KAR 5:026, Section 9(2), the Commission regulation which implements the statute's provisions, provides that "[E]ach gas company shall charge. . . tariff rates which have been approved by the commission, or if none, current Federal Energy Regulatory Commission approved rate." Virtually all gas pipeline companies in Kentucky which provide farm tap service use the Federal Energy Regulatory Commission ("FERC") rate, or "FERC approved rate."

The "FERC approved rate" refers to the ceiling prices established as part of the well determination filing program established by the Natural Gas Policy Act of 1978 ("NGPA"), provisions for which were implemented in Commission Regulation 807 KAR 5:031. Through this program, a gas producer files an application to have the gas well categorized, which establishes a maximum ceiling price for the first sale of gas from that well. Gas pipeline companies in Kentucky have used the ceiling prices established, which pursuant to the provisions of the NGPA have increased slightly each month, as the rate they have charged to farm tap customers. Some larger gas pipeline companies have used an averaged cost from all of their gas producing wells on which to base their farm tap rate.

When the NGPA was enacted, certain categories of gas had built-in dates when the price for gas would be decontrolled and there would no longer be a ceiling price. Some of these categories

of gas were decontrolled in 1985. The Natural Gas Wellhead Decontrol Act of 1989¹ decontrols all remaining categories of gas effective January 1, 1993. At that time, there will no longer be ceiling prices for gas and therefore no "FERC approved rate."

The Commission does not wish to respond to deregulation at the national level with an increase in regulation at the state level that will prevent the continuation of farm tap service to existing customers, discourage the provision of such service in the future, or impede the continued operations of gas pipeline companies which provide such service. However, the Commission has a statutory responsibility to review and approve rates for farm tap service. Due to the imminent elimination of ceiling prices, the Commission must determine the manner and extent to which rates for farm tap service should be filed with and reviewed by the Commission and seeks advice and recommendations from the gas pipeline companies and other interested parties to develop the appropriate policy and necessary regulatory changes to 807 KAR 5:026, Section 9(2).

The Commission will focus in this proceeding on gas pipeline companies which provide farm tap service. As a first step, the Commission is requesting generic information from gas pipeline companies on farm tap service. The Commission anticipates a public hearing to allow all interested parties an opportunity to present their opinions and recommendations. The Commission's goal is to have its policy established no later than December 31, 1992 and to


¹ 15 U.S.C. 3301.

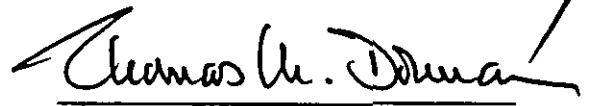
submit the appropriate regulatory changes to 807 KAR 5:026 in January 1993.

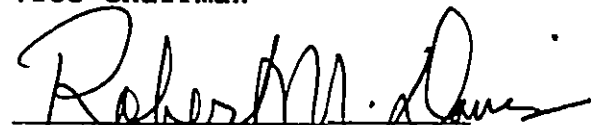
IT IS THEREFORE ORDERED that all gas pipeline companies with gathering pipelines or producing wells shall provide the information requested in the Appendix, which is attached hereto and incorporated herein, no later than 21 days from the date of this Order.

Done at Frankfort, Kentucky, this 8th day of October, 1992.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN ADMINISTRATIVE CASE NO. 342 dated October 8, 1992.

1. Legal name of your company. _____

2. Identify all counties in which you operate.

3. Does your company operate gas gathering pipelines within the Commonwealth of Kentucky from which farm tap* connections are served? Yes _____ No _____

4. If you answered yes to Question 3, how many such connections are on your pipelines? _____

5. Of the connections you have, how many are provided free gas service as a result of lease or right-of-way agreements, if any? _____ Total

6. Identify the number of connections that serve paying residential customers; what rate is charged?

_____ Total

_____ Rate(s)

7. Do any of the connections serve commercial, governmental or industrial customers? Yes _____ No _____

If yes, what rate is charged?

_____ Commercial

_____ Governmental

_____ Industrial

8. Are any of your customers served by a special contract which provides for a rate other than the rates specified in answers to questions 6 and 7? Yes _____ No _____

*Refer to Order for definition of farm tap service.